

PERAC AUDIT REPORT



Haverhill Contributory Retirement System

JAN. 1, 2005 - DEC. 31, 2007



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

November 25, 2008

The Public Employee Retirement Administration Commission has completed an examination of the Haverhill Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2005 to December 31, 2007. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission.

We commend the Haverhill Retirement Board for the exemplary operation of the system.

In closing, I acknowledge the work of examiners James Ryan and James Tivnan who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



STATEMENT OF LEDGER ASSETS AND LIABILITIES

AS OF DECEMBER 31,			
	2007	2006	2005
Net Assets Available For Benefits:			
Cash	\$2,817,178	\$6,592,184	\$5,244,778
Fixed Income Securities	19,504,478	21,275,453	21,885,319
Equities	51,849,471	49,943,826	63,111,897
Pooled Domestic Equity Funds	11,840,597	11,850,105	0
Pooled International Equity Funds	27,451,532	27,208,793	24,843,393
Pooled Domestic Fixed Income Funds	19,180,721	15,770,261	15,335,772
Pooled Alternative Investment Funds	20,284,792	14,788,241	12,682,070
Pooled Real Estate Funds	21,359,085	17,460,356	10,807,224
PRIT Cash Fund	0	0	0
PRIT Core Fund	0	0	0
Interest Due and Accrued	303,450	342,844	345,374
Accounts Receivable	178,178	411,406	33,943
Accounts Payable	(290,689)	(266,707)	(27,092)
Total	<u>\$174,478,793</u>	<u>\$165,376,761</u>	<u>\$154,262,679</u>
Fund Balances:			
Annuity Savings Fund	\$34,623,597	\$33,423,309	\$31,969,410
Annuity Reserve Fund	21,907,063	22,491,825	23,995,744
Pension Fund	7,360,276	6,230,806	7,092,176
Military Service Fund	15,558	15,509	13,542
Expense Fund	0	0	0
Pension Reserve Fund	110,572,298	103,215,312	91,191,807
Total	<u>\$174,478,793</u>	<u>\$165,376,761</u>	<u>\$154,262,679</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2005)	\$29,876,711	\$25,320,626	(\$13,083,029)	\$3,298	\$0	\$108,850,093	\$150,967,699
Receipts	3,420,177	728,216	9,125,617	10,245	2,392,575	10,537,538	26,214,368
Interfund Transfers	(726,023)	725,966	28,195,881	0	0	(28,195,824)	0
Disbursements	(601,455)	(2,779,064)	(17,146,293)	0	(2,392,575)	0	(22,919,387)
Ending Balance (2005)	31,969,410	23,995,744	7,092,176	13,542	0	91,191,807	154,262,679
Receipts	3,542,044	688,441	9,477,270	10,987	1,811,413	19,229,762	34,759,917
Interfund Transfers	(701,708)	667,948	7,240,016	0	0	(7,206,256)	0
Disbursements	(1,386,437)	(2,860,308)	(17,578,656)	(9,021)	(1,811,413)	0	(23,645,835)
Ending Balance (2006)	33,423,309	22,491,825	6,230,806	15,509	0	103,215,312	165,376,761
Receipts	3,533,274	658,201	10,310,503	1,797	1,903,068	15,934,332	32,341,174
Interfund Transfers	(1,583,749)	1,584,158	8,578,683	(1,747)	0	(8,577,346)	0
Disbursements	(749,237)	(2,827,121)	(17,759,717)	0	(1,903,068)	0	(23,239,143)
Ending Balance (2007)	<u>\$34,623,597</u>	<u>\$21,907,063</u>	<u>\$7,360,276</u>	<u>\$15,558</u>	<u>\$0</u>	<u>\$110,572,298</u>	<u>\$174,478,793</u>

STATEMENT OF RECEIPTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2007	2006	2005
Annuity Savings Fund:			
Members Deductions	\$3,109,046	\$3,079,009	\$2,801,591
Transfers from Other Systems	158,442	218,897	166,700
Member Make Up Payments and Re-deposits	72,573	58,227	275,545
Investment Income Credited to Member Accounts	<u>193,213</u>	<u>185,912</u>	<u>176,341</u>
Sub Total	<u>3,533,274</u>	<u>3,542,044</u>	<u>3,420,177</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>658,201</u>	<u>688,441</u>	<u>728,216</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	190,549	194,868	194,883
	495,640	548,486	1,022,106
Pension Fund Appropriation	<u>9,624,314</u>	<u>8,733,917</u>	<u>7,908,628</u>
Sub Total	<u>10,310,503</u>	<u>9,477,270</u>	<u>9,125,617</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	1,706	10,894	10,140
Investment Income Credited to the Military Service Fund	<u>91</u>	<u>93</u>	<u>105</u>
Sub Total	<u>1,797</u>	<u>10,987</u>	<u>10,245</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>1,903,068</u>	<u>1,811,413</u>	<u>2,392,575</u>
Sub Total	<u>1,903,068</u>	<u>1,811,413</u>	<u>2,392,575</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	70,107	72,634	57,840
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	11,327	40,702	7,345
Miscellaneous Income	9,010	31,504	0
Excess Investment Income	<u>15,843,888</u>	<u>19,084,922</u>	<u>10,472,353</u>
Sub Total	<u>15,934,332</u>	<u>19,229,762</u>	<u>10,537,538</u>
Total Receipts	<u>\$32,341,174</u>	<u>\$34,759,917</u>	<u>\$26,214,368</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2007	2006	2005
Annuity Savings Fund:			
Refunds to Members	\$564,760	\$823,544	\$377,557
Transfers to Other Systems	<u>184,477</u>	<u>562,892</u>	<u>223,898</u>
Sub Total	<u>749,237</u>	<u>1,386,437</u>	<u>601,455</u>
Annuity Reserve Fund:			
Annuities Paid	2,821,143	2,785,620	2,743,733
Option B Refunds	<u>5,978</u>	<u>74,688</u>	<u>35,331</u>
Sub Total	<u>2,827,121</u>	<u>2,860,308</u>	<u>2,779,064</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	13,616,462	13,242,066	13,182,399
Survivorship Payments	429,365	396,626	405,600
Ordinary Disability Payments	212,739	215,566	206,970
Accidental Disability Payments	2,599,723	2,857,483	2,443,996
Accidental Death Payments	319,890	320,821	373,026
Section 101 Benefits	111,169	100,336	94,075
3 (8) (c) Reimbursements to Other Systems	293,680	268,021	262,505
State Reimbursable COLA's Paid	159,849	160,632	160,211
Chapter 389 Beneficiary Increase Paid	<u>16,839</u>	<u>17,104</u>	<u>17,511</u>
Sub Total	<u>17,759,717</u>	<u>17,578,656</u>	<u>17,146,293</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>9,021</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	15,000	15,000	15,000
Salaries	192,665	190,256	185,448
Legal Expenses	22,963	40,522	76,278
Travel Expenses	963	358	1,953
Administrative Expenses	93,982	56,732	73,161
Furniture and Equipment	592	79	5,293
Management Fees	1,235,017	1,221,086	1,769,705
Custodial Fees	182,104	151,741	118,779
Consultant Fees	107,757	90,198	97,103
Service Contracts	24,997	19,362	19,760
Fiduciary Insurance	<u>27,028</u>	<u>26,079</u>	<u>30,095</u>
Sub Total	<u>1,903,068</u>	<u>1,811,413</u>	<u>2,392,575</u>
Total Disbursements	<u>\$23,239,143</u>	<u>\$23,645,835</u>	<u>\$22,919,387</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2007	2006	2005
Investment Income Received From:			
Cash	\$181,800	\$106,069	\$100,343
Fixed Income	1,152,742	1,092,424	1,145,243
Equities	652,885	643,765	693,557
Pooled or Mutual Funds	2,371,524	1,700,076	1,263,066
Commission Recapture	<u>4,232</u>	<u>10,649</u>	<u>25,038</u>
Total Investment Income	<u>4,363,184</u>	<u>3,552,983</u>	<u>3,227,247</u>
Plus:			
Realized Gains	9,542,710	8,062,940	10,231,203
Unrealized Gains	20,418,241	19,202,220	12,108,162
Interest Due and Accrued - Current Year	<u>303,450</u>	<u>342,844</u>	<u>345,374</u>
Sub Total	<u>30,264,401</u>	<u>27,608,004</u>	<u>22,684,739</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	(107,380)	(67,881)	(108,097)
Realized Loss	(4,175,166)	(5,912,472)	(7,209,235)
Unrealized Loss	(11,403,734)	(3,064,479)	(4,467,069)
Interest Due and Accrued - Prior Year	<u>(342,844)</u>	<u>(345,374)</u>	<u>(357,995)</u>
Sub Total	<u>(16,029,124)</u>	<u>(9,390,207)</u>	<u>(12,142,397)</u>
Net Investment Income	<u>18,598,461</u>	<u>21,770,781</u>	<u>13,769,589</u>
Income Required:			
Annuity Savings Fund	193,213	185,912	176,341
Annuity Reserve Fund	658,201	688,441	728,216
Military Service Fund	91	93	105
Expense Fund	<u>1,903,068</u>	<u>1,811,413</u>	<u>2,392,575</u>
Total Income Required	<u>2,754,572</u>	<u>2,685,859</u>	<u>3,297,236</u>
Net Investment Income	<u>18,598,461</u>	<u>21,770,781</u>	<u>13,769,589</u>
Less: Total Income Required	<u>2,754,572</u>	<u>2,685,859</u>	<u>3,297,236</u>
Excess Income To The Pension Reserve Fund	<u>\$15,843,888</u>	<u>\$19,084,922</u>	<u>\$10,472,353</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2007		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$2,817,178	1.6%
Fixed Income	19,504,478	11.2%
Equities	51,849,471	29.7%
Pooled Domestic Equity Funds	11,840,597	6.8%
Pooled International Equity Funds	27,451,532	15.8%
Pooled Domestic Fixed Income Funds	19,180,721	11.0%
Pooled Alternative Investment Funds	20,284,792	11.6%
Pooled Real Estate Funds	21,359,085	12.3%
PRIT Cash Fund	0	0.0%
PRIT Core Fund	0	0.0%
Grand Total	<u>\$174,287,854</u>	<u>100.0%</u>

For the year ending December 31, 2007, the rate of return for the investments of the Haverhill Retirement System was 11.75%. For the five-year period ending December 31, 2007, the rate of return for the investments of the Haverhill Retirement System averaged 14.19%. For the 23-year period ending December 31, 2007, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Haverhill Retirement System was 11.83%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Haverhill Retirement System submitted the following supplementary investment regulations, which were approved by the Public Employee Retirement Administration Commission on:

September 19, 2007

16.08 Notwithstanding the provisions of any statute or regulation to the contrary, specifically including the provisions of 840 CMR 21.01, the Haverhill Retirement Board is hereby granted an exemption from restrictions on investment for the purposes of investing seven million dollars (\$7,000,000) of the Haverhill Retirement System's assets in the Eaton Vance Loan Opportunities Fund, Ltd., a private placement investment.

February 14, 2007

17.03 Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Haverhill Retirement Board may invest funds of the Retirement System (the "System") in the fund known as the Institutional Retirement Trust (IRT) International Equity Trust (the "Fund"), and effective as of the date of the initial investment by the System of any of its assets in the Fund, while the assets of the System are so invested, the activities and investments of the Fund, directly or indirectly, shall be deemed to satisfy the prohibited transaction rules set forth in 840 CMR 16.00 et seq. and 840 CMR 17.03 to the extent such activities satisfy the prohibited transaction rules set forth in Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), taking into account ERISA Section 408(b)(8) as well as other statutory exemptions under ERISA, and Prohibited Transaction Class Exemption 84-14, as amended, Prohibited Transaction Class Exemption 91-38, and other available class exemptions.

November 10, 2005

16.08 The Haverhill Retirement Board is authorized to invest in the RhumbLine S&P Mid Growth Index on a temporary basis. The Board will be conducting a competitive search process for a permanent manager to replace Forstmann Leff, which it has voted to terminate on the basis of both performance issues and organizational concerns. The RhumbLine fund was selected on the basis of low cost and other factors. This authorization will extend through February 28, 2006.

October 17, 2002

16.08 In accordance with PERAC Investment Guideline 99-3, the Haverhill Retirement Board is authorized to sell its remaining position in North Bridge Venture Partners II (NBVP II) back to the General Partner and to reinvest the proceeds in North Bridge Venture Partners V. This transaction is intended to benefit the Limited Partners by closing the books on NBVP II, eliminating risks due to possible dilution and market uncertainty. It would benefit the General Partner by creating a consolidated, more efficient administrative structure.

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

September 17, 2002

16.08 In accordance with Investment Guideline 99-2, the Haverhill Retirement Board is authorized to modify its existing small cap growth mandate with Deutsche Asset Management to also include, through a separate commingled fund, mid cap growth. This authorization extends through December 31, 2002, and is intended to allow the Board to complete a rebalancing of its portfolio while its existing mid cap growth manager is on performance probation. Deutsche Asset Management's mid cap growth investment team is the same as for the existing small cap growth account.

March 26, 2001

21.01 In accordance with PERAC Guideline 99-1, the Haverhill Retirement System authorizes Fisher Investments, its small cap value manager, to utilize options up to 7% of its portfolio value. As specified in the Guideline, the manager's use of options is solely for the purpose of limiting the account's exposure to the equity market's volatility. The Board believes that the use of options as a management tool is preferable to having the manager sell stocks outright from its portfolio.

January 31, 2000

16.02 The Haverhill Retirement Board hereby adopts the terms of the declaration of trust establishing the Institutional Retirement Trust, a Collective Trust of Institutional Trust Company for Participating Pension and Profit Sharing Trusts, collective trust fund sponsored by INVESCO Trust Company, as such declaration of trust is amended from time to time, and agrees that the terms of the declaration of trust, as amended, shall be incorporated into and made part of the retirement plan as administered by the Haverhill Retirement Board. The sole purpose of this special regulation is to satisfy the requirement of the Internal Revenue Service Revenue Ruling 81-100 that each plan that invests in a collective trust established under Revenue Ruling 81-100 incorporate the terms of the collective trust, and this special regulation shall be construed accordingly.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Haverhill Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

Group 1:

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire no later than the end of month they attain age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, § 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, § 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, § 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”.

Retirement Allowance: Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$687.96 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$312 per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000 from the State Retirement Board.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

NOTES TO FINANCIAL STATEMENTS (Continued)

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

NOTES TO FINANCIAL STATEMENTS (Continued)

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Haverhill Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

July 5, 2005

Privacy of Members, Retirees, Beneficiaries, and Survivors

The Haverhill Retirement Board has determined that it is necessary and in the best interest of its active and retired members, beneficiaries and survivors, to grant access to the name, address, telephone numbers and/or social security numbers of those individuals for the sole and limited purposes of assisting in the proper administration of G.L. c. 32 and 32B, and the issuance of monthly benefit checks. The Board recognizes the need to protect the privacy of its active and retirement members, beneficiaries and survivors, and to that end will only allow access to personal information to the City of Haverhill's Treasurer's Department, Human Resources Department, Data Processing Department, Benefits Coordinator and School Department. The Board will also grant access [for the purpose of mailings but will not allow the release of] the names and addresses of its active and retired members to candidates who are seeking an elected seat on the Board. The following procedure must be undertaken for access to be granted:

1. All information must be in sealed pre-stamped envelopes or on pre-paid Postcards;
2. Information must be supplied to the Staff one week prior to mailing; and
3. Address labels will be generated and affixed by the Retirement Staff with a cost to the candidate for the labels and one hour of office time at the lowest office rate. All information will be mailed by the Haverhill Retirement Office Staff.

All other requests for the addresses or other personal information of the active and retired member, beneficiaries and survivors will be evaluated on a case-by-case basis [consistent with applicable law], and this supplemental regulation may be amended from time to time, subject to PERAC's approval, to address the needs of the members, beneficiaries and survivors and the City of Haverhill.

April 24, 2002

Creditable Service

Any current member of the Haverhill Retirement System who contacted the Board and attempted to make application for the purchase of creditable service pursuant to the terms and conditions of chapter 7I of the acts of 1996, as amended by chapter 188 of the acts of 1996, and who otherwise failed to go forward in such application process because the Board was only considering a lump-sum payment within 180 days of the effective date of the legislation or notice of eligibility, may pay into the annuity savings fund of the Haverhill Retirement System the appropriate make-up payment. Such payment may be in installments at an interest rate to be determined by the Board provided that such installments are completed before the member's effective date of retirement. Interest will commence 180 days after the effective date of the legislation or notice of eligibility. In support thereof, the member must submit an affidavit attesting to reason or reasons why the member failed to complete the process. The Board reserves the right to reject the application after a hearing to which the applicant shall receive notice to attend.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

July 2, 2001

Veteran's Buyback

All members entitled to the Veteran's Buy Back, must make application within the one hundred-eighty (180) days as required under Chapter 71 of the Acts of 1996. They shall then have the option of paying for this creditable service at any time, up to their date of retirement, in one lump sum payment.

August 19, 2002

Travel Regulations

The System has adopted Supplemental Travel Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). (Regulation available upon written request.)

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the City Auditor who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Charles Benevento

Appointed Member: Donald J. Shea Term Expires: 04/20/10

Elected Member: William J. Klueber, Chairman Term Expires: 12/12/10

Elected Member: Lewis F. Poore, Jr. Term Expires: 06/30/08

Appointed Member: James P. Cleary, III Term Expires: 01/29/09

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex-officio Member:)	\$50,000,000 Fiduciary Responsibility
Elected Member:)	Through Massachusetts Association of Contributory Retirement Systems
Appointed Member:)	Travelers Casualty & Surety Company of America
Staff Employee:)	\$1,000,000 Commercial Crime Policy

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by The Segal Group, Inc. as of January 1, 2006.

The actuarial liability for active members was	\$73,511,952
The actuarial liability for inactive members was	4,905,443
The actuarial liability for retired members was	<u>178,040,339</u>
The total actuarial liability was	256,457,734
System assets as of that date were (actuarial value)	<u>155,992,609</u>
The unfunded actuarial liability was	<u>\$100,465,125</u>
 The ratio of system's assets to total actuarial liability was	 60.8%
As of that date the total covered employee payroll was	\$35,282,797

The normal cost for employees on that date was 8.60% of payroll

The normal cost for the employer including administrative expenses was 6.32% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return:	8.50% per year
Rate of Salary Increase:	4.50% for the next two years, then 5.0% for the following two years, then 5.5% per year

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2006

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2006	\$155,992,609	\$256,457,734	\$100,465,125	60.8%	\$35,282,797	284.7%
1/1/2005	\$152,334,152	\$247,959,579	\$95,625,427	61.4%	\$33,472,330	285.7%
1/1/2004	\$149,981,686	\$242,187,917	\$92,206,231	61.9%	\$32,030,938	287.9%
1/1/2003	\$148,677,744	\$233,743,425	\$85,065,681	63.6%	\$39,066,392	217.7%
1/1/2002	\$160,890,365	\$222,348,347	\$61,457,982	72.4%	\$37,384,107	164.4%
1/1/2001	\$156,688,800	\$210,219,900	\$53,531,100	74.5%	\$55,875,300	95.8%
1/1/2000	\$144,484,800	\$195,312,800	\$50,828,000	74.0%	\$53,469,200	95.1%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Retirement in Past Years										
Superannuation	33	18	41	178	86	80	23	12	16	28
Ordinary Disability	1	1	1	2	0	1	1	0	1	0
Accidental Disability	3	0	0	3	3	1	1	2	1	1
Total Retirements	37	19	42	183	89	82	25	14	18	29
Total Retirees, Beneficiaries and Survivors	998	997	1,031	1,053	1,198	1,146	1,193	1,209	1,172	1,165
Total Active Members	1,692	1,630	1,795	1,354	1,251	987	1,025	1,012	966	970
Pension Payments										
Superannuation	\$8,547,040	\$6,170,662	\$6,601,591	\$7,746,492	\$10,684,152	\$11,542,672	\$13,045,716	\$13,182,399	\$13,242,066	\$13,616,462
Survivor/Beneficiary Payments	*	315,613	342,047	395,732	385,126	467,442	242,093	405,600	396,626	429,365
Ordinary Disability	*	188,464	208,485	213,566	200,807	216,225	204,522	206,970	215,566	212,739
Accidental Disability	*	1,896,921	1,832,473	2,029,026	2,308,890	2,374,025	2,427,752	2,443,996	1,857,483	2,599,723
Other	*	457,831	472,517	477,208	450,851	400,841	511,694	729,606	689,178	724,740
Total Payments for Year	<u>\$8,547,040</u>	<u>\$9,029,491</u>	<u>\$9,457,113</u>	<u>\$10,862,024</u>	<u>\$14,029,826</u>	<u>\$15,001,205</u>	<u>\$16,431,777</u>	<u>\$16,968,571</u>	<u>\$16,400,920</u>	<u>\$17,583,029</u>

* Detail not available

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